

23. I have interviewed a school administrator of the Al Noor School ("CW-1")³, who advised me of the following, in substance and in part:

a. In or about 1999 and early 2000, GARY BLUM and OSCAR ALVAREZ, the defendants, met with CW-1 numerous times. During these meetings, BLUM and ALVAREZ solicited CW-1 to retain C2I as Al Noor School's vendor for the E-Rate Program. In doing so, they represented that, if Al Noor School retained C2I, Al Noor School could obtain hundreds of thousands of dollars worth of internet-related services and equipment without paying any money. When asked how this could be accomplished, BLUM and ALVAREZ provided vague explanations, suggesting they would find "donations" to cover Al Noor School's 10% Undiscounted Share or some other means of "taking care of" the school's obligation.

b. In or about July 2001, JOHN ANGELIDES, the defendant, met with CW-1 and confirmed C2I's earlier promise that Al Noor School would not have to pay its 10% Undiscounted Share. ANGELIDES said, however, that he wanted Al Noor School to help ANGELIDES make it appear to the SLD that Al Noor School was in fact paying its 10% to C2I. ANGELIDES instructed CW-1 to pay the 10% amount to C2I by check and promised to refund the full amount to the school by other means. CW-1 agreed to this arrangement.

c. In or about August and September 2001, Al Noor School paid C2I its 10% share -- approximately \$94,000 -- in two separate checks. Shortly afterwards, JOHN ANGELIDES, the defendant, refunded those monies, giving CW-1 an envelope containing approximately \$20,000 cash, and checks to cover the balance. One of those checks was in the approximate amount of \$65,000 and made payable to the Islamic Society of Bay Ridge ("ISBR"), a charitable organization whose president sat on the board of directors of Al Noor. CW-1 made arrangements with ISBR for the ISBR to forward to Al Noor the funds that it received from C2I.

24. I have reviewed a copy of a canceled check in the amount of approximately \$65,194, payable to ISBR, drawn on an account of C2I, and signed by JOHN ANGELIDES, the defendant. I

CW-1 has provided information and assistance to the Government in the hope of receiving a reduced sentence for his/her participation in a fraudulent scheme to obtain Government funds under the E-Rate Program. The information provided by CW-1 has been reliable, and has been corroborated by independent information, as described more fully below.

have also reviewed bank records of ISBR which show that at least approximately \$74,660 was paid by C2I to ISBR, in two checks, in or about September and November 2001.

25. I have interviewed an analyst for SLD, who provided me with documents and other information. The information reveals the following, in substance and in part:

(a) In or about August 2001, in conversations with JOHN ANGELIDES, the defendant, the analyst at least twice requested documentary proof that C2I had billed Al Noor School for its Undiscounted Share and that the Al Noor School had paid that amount.

(b) On or about August 30, 2001, in response to these requests, JOHN ANGELIDES, the defendant, faxed from Staten Island, New York, to the SLD analyst in New Jersey, copies of a check from Al Noor School in the approximate amount of \$85,194 payable to C2I and an invoice purportedly showing that ~~Al Noor School~~ had billed Al Noor School for approximately \$94,660. On the fax cover sheet, ANGELIDES wrote, in part, "Enclosing Invoice & Check for the schools proportionate amount." The fax cover sheet included a "CC" to GARY BLUM, the defendant.

(c) On or about September 7, 2001, JOHN ANGELIDES, the defendant, faxed from Staten Island, New York, to the SLD analyst in New Jersey, a copy of a check from Al Noor School to C2I in the approximate amount of \$9,466. On the fax cover sheet, ANGELIDES wrote, in relevant part: "Finally, we picked up the last of the checks from the Al Noor Schools, which should clear the way for us to get paid." That fax cover sheet included a "CC" to GARY BLUM, the defendant.

SAINT ROCCO VICTORIA SCHOOL

26. According to USAC and SLD records:

a. The Saint Rocco Victoria School, located in Newark, New Jersey, participated in the E-Rate Program using C2I as its E-Rate vendor.

b. Saint Rocco Victoria School participated in the E-Rate Program with a 90% discount rate.

c. For Funding Year 3 of the E-Rate Program, C2I applied for a total of approximate \$349,405 in E-Rate funds for goods and services to be provided to the Saint Rocco Victoria School. This amount purported to be 90% of the total price charged

to Saint Rocco Victoria School for E-Rate eligible goods and services. The full amount requested was approved and paid to C2I by USAC.

27. I have interviewed a school administrator of Saint Rocco Victoria School ("St. Rocco Administrator 1"), who as advised me of the following, in substance and in part:

a. In or about the Fall 1999, GARY BLUM and OSCAR ALVAREZ, the defendants, told St. Rocco Administrator 1 that, if Saint Rocco Victoria School retained C2I as its vendor for the E-Rate Program, the School could obtain hundreds of thousands of dollars worth of internet-related services and equipment without paying any money. When St. Rocco Administrator 1 asked BLUM and ALVAREZ about how this could be accomplished in light of the requirement that the school pay its 10% Undiscounted Share, BLUM and ALVAREZ stated without elaboration that C2I would find "outside funding" or "grants" that would cover the school's 10% portion.

b. In reliance on these representations, Saint Rocco Victoria School applied through the E-Rate Program for a substantially more expensive and extensive internet service and equipment package than it would have done had the School been required to pay its 10% share.

c. In order to protect Saint Rocco Victoria School, St. Rocco Administrator 1 asked that C2I confirm in writing its promise to cover the school for any costs. In response, JOHN ANGELIDES, the defendant, provided a letter to St. Rocco Administrator 1 that confirmed this promise.

d. St. Rocco Administrator 1 did not expect to receive any invoices from C2I for services or equipment related to the E-Rate Program. However, in the Spring or Summer of 2001 (around the time when the SLD commenced an investigation of C2I's compliance with the E-Rate Program rules), JOHN ANGELIDES, the defendant, advised St. Rocco Administrator 1 that C2I would be billing the School for its 10% Undiscounted Share of the internet access service cost. ANGELIDES explained that he needed to issue an invoice for this amount because of a lag between when C2I applied for reimbursement and when C2I received payment from the Government. ANGELIDES represented that, if the school paid the invoice, C2I would return the full amount of the payment at a later date. Shortly afterwards, as per this arrangement with ANGELIDES, St. Rocco Administrator 1 provided C2I with a check in the amount set forth in an invoice supplied by ANGELIDES. Later in 2001, C2I returned the money to the Saint Rocco Victoria School, as ANGELIDES had promised.

28. I have interviewed another school administrator of Saint Rocco Victoria School ("St. Rocco Administrator 2"), who advised me that GARY BLUM and OSCAR ALVAREZ, the defendants, also told St. Rocco Administrator 2 that Saint Rocco Victoria School could obtain internet-related services and equipment from C2I without paying any money.

29. ~~SARS~~ gave me a copy of an agreement dated January 11, 2000. The agreement is in the form of a letter from St. Rocco Administrator 1 to JOHN ANGELIDES, the defendant, and is signed by both St. Rocco Administrator 1 and ANGELIDES. In the letter, St. Rocco Administrator 1 states, in relevant part, (a) that "[i]t is my understanding that St Rocco School will not be responsible for any hidden cost in the grant proposal made to us by" C2I, (b) that "[i]t is also my understanding that St. Rocco will receive outside grant monies to pay 10% of the total cost of the project," and (c) that "it is my understanding that in accepting the [C2I] proposal there is absolutely no cost to the school."

30. I have reviewed copies of the following documents: (a) an invoice dated June 4, 2001, from C2I to St. Rocco Victoria School, in the amount of \$2,268, purporting to be regarding "the School's proportionate amount due to Connect@ (sic) for E-Rate service from July 1, 2000 thru June 30, 2001"; (b) a check dated June 10, 2001, signed by St. Rocco Administrator 1 and payable to C2I, in the amount of \$2,268; and (c) two checks dated September 24, 2001, signed by JOHN ANGELIDES, the defendant, and payable to St. Rocco School, one in the amount of \$1,000 and the other in the amount of \$1,268 (totaling \$2,268).

31. USAC records reflect that in or about June, July and August 2001, USAC sought from C2I and St. Rocco Victoria School proof that C2I had billed St. Rocco Victoria School for its Undiscounted Share, and that the 10% had been paid by St. Rocco Victoria School. In response, C2I transmitted to USAC's analysts several documents by fax:

a. In one fax, sent from Staten Island, New York to New Jersey, a fax cover sheet dated July 30, 2001 and entitled "ST. ROCCO SCHOOL," contains a notation from JOHN ANGELIDES, the defendant, stating "Enclosing Invoices requested for schools proportionate amount." GARY BLUM, the defendant, is listed as "CC" on the fax. Transmitted with the cover sheet, among other things, was a copy of the purported June 4, 2001, invoice described in the previous paragraph.

b. In another fax, sent on or about September 4, 2001, from C2I in Staten Island, New York to New Jersey, C2I enclosed a

copy of the \$2,268 check to C2I signed by St. Rocco Administrator 1 described in the previous paragraph.

CHILDREN'S STORE FRONT SCHOOL

32. According to USAC and SLD records:

a. The Children's Store Front School ("CSFS"), located in New York, New York, participated in the E-Rate Program using C2I as its E-Rate vendor.

b. CSFS participated in the E-Rate Program with a 90% discount rate.

c. For Funding Year 3 of the E-Rate Program, C2I applied for a total of approximately \$491,447 in E-Rate funds for goods and services to be provided to CSFS. This amount purported to be 90% of the total price charged to CSFS for E-Rate eligible goods and services. The full amount requested was approved and paid to C2I by USAC.

33. I have interviewed a school administrator of CSFS ("CSFS Administrator 1"), who advised me, in substance and in part:

a. In or about December 1999, CSFS Administrator 1 was introduced to JOHN DOTSON, the defendant, by an administrator ("Foundation Administrator 1") of a charitable foundation known as the Gilder Foundation. DOTSON offered to assist CSFS as a "consultant" regarding the opportunities of the E-Rate Program. DOTSON suggested that CSFS retain C2I as its E-Rate vendor and repeatedly assured CSFS Administrator 1 that CSFS would not have to pay anything for the equipment and services that it would receive from C2I.

b. CSFS Administrator 1 questioned DOTSON concerning the school's obligation to pay 10% of the costs, emphasizing that CSFS could not afford to pay 10% of an expensive project. In response, DOTSON explained that Gilder Foundation would cover CSFS's share of the costs by donating money for CSFS's benefit.

c. In reliance on these representations, CSFS applied through the E-Rate Program for a substantially more expensive and extensive internet service and equipment package than it would have done had the school been required to pay its 10% share of the costs.

d. In or around the Summer of 2000, an SLD analyst contacted CSFS and asked for proof that the school had budgeted

sufficient funds to cover its 10% Undiscounted Share. To comply with this request, CSFS Administrator 1 contacted Foundation Administrator 1 at the Gilder Foundation and asked for proof, such as a letter of commitment, that the Gilder Foundation had agreed to donate funds that would cover the school's share of the costs. Foundation Administrator 1, however, said that he/she knew nothing about such a commitment.

e. CSFS Administrator 1 then contacted JOHN DOTSON, the defendant, and informed him of CSFS Administrator 1's conversation with Foundation Administrator 1. DOTSON responded that he would "take care of it." Approximately one day later, CSFS Administrator 1 was told that a commitment letter was available, and CSFS Administrator 1 picked up the letter.

f. In or about the Fall of 2001, the SLD requested proof that CSFS had paid its Undiscounted Share. After this request was received, JOHN ANGELIDES, the defendant, met with CSFS Administrator 1. During the meeting, ANGELIDES showed CSFS Administrator 1 an invoice to CSFS in the approximate amount of \$52,000, and asked for CSFS to certify its receipt of the invoice and write a check to C2I in the amount listed on the invoice. CSFS Administrator 1 expressed surprise at this request, telling ANGELIDES that CSFS had been led to believe that there would be no cost to the school for the goods and services provided by C2I. ANGELIDES responded that there was nothing to be concerned about and assured CSFS Administrator 1 that his request for a certification and check "would not cost the school anything." ANGELIDES explained that, if CSFS Administrator 1 wrote a check as ANGELIDES had requested, ANGELIDES would write a check back to CSFS in the same amount. CSFS Administrator 1 told ANGELIDES that he could not comply with ANGELIDES's requests, and directed ANGELIDES to discuss this matter with CSFS Administrator 1's supervisor, another CSFS administrator ("CSFS Administrator 2").

g. In or about the Spring of 2002, CSFS Administrator 1 asked C2I to provide CSFS with a copy of whatever information C2I had provided to the SLD as proof that CSFS's Undiscounted Share had been paid. In response, CSFS received copies of two checks written from DOTSON to C2I. CSFS did not understand why the checks were written by DOTSON, rather than the Gilder Foundation.

34. I have interviewed CSFS Administrator 2, who advised me of the following, in substance and in part:

a. In or about the Fall of 2001, JOHN ANGELIDES, the defendant, met with CSFS Administrator 2 at the request of CSFS Administrator 1. During this meeting, ANGELIDES told CSFS

Administrator 2 that SLD was seeking proof that CSFS had paid its 10% Undiscounted Share. ANGELIDES proposed two arrangements that would generate false proof that CSFS had paid this amount. As ANGELIDES explained, CSFS could either (1) write a check to C21 which ANGELIDES would "tear up"; or (2) write a check to C21 which ANGELIDES would exchange for a check payable to CSFS in the same amount. CSFS Administrator 2 told ANGELIDES that CSFS would not be a party to either arrangement.

b. After his meeting with JOHN ANGELIDES, the defendant, CSFS Administrator 2 contacted JOHN DOTSON, the defendant, and asked whether the Gilder Foundation was, in fact, paying for CSFS's 10% share of the cost of goods and services provided by C2I. In response, DOTSON said that Gilder Foundation already had paid CSFS's 10% share. Afterwards, CSFS Administrator 2 contacted ANGELIDES and related to ANGELIDES the conversation CSFS Administrator 2 had just finished with DOTSON. CSFS Administrator 2 asked ANGELIDES to speak with DOTSON, and suggested that C2I simply show the SLD proof of Gilder Foundation's payment on behalf of CSFS as evidence that CSFS had satisfied its obligation to pay 10 percent.

35. I have reviewed a copy of a letter dated August 25 (with no year) signed by Foundation Administrator 1 on behalf of the Gilder Foundation and addressed to CSFS and CSFS Administrator 1. The letter states, among other things: "Please be advised that the Gilder Foundation will continue its support of the Library, the new curriculum focus on research and computer literacy. We will honor our pledge of grant support of \$58,000. . . . E-Rate will help the school with its heightened focus on different learning styles and ways to acquire information." A fax header on the copy sent to USAC reflects that it was sent to USAC on or about September 5, 2000.

36. I have reviewed bank records of C2I reflecting that JOHN DOTSON, the defendant, was paid on multiple occasions in 2001 by C2I relating to E-Rate participant schools. Moreover, during the course of CSFS's dealings with DOTSON, CSFS Administrator 1 told me that he/she once suggested to DOTSON that CSFS was considering switching internet service providers, away from C2I. DOTSON responded "If you work with me, you work with Connect 2."

37. An analyst for the SLD advised me that, in or about September and October 2001, he/she sought from JOHN ANGELIDES, the defendant, proof that C2I had billed CSFS for its Undiscounted Share, and that the 10% had been paid by CSFS. In response, ANGELIDES transmitted to the SLD analyst several documents by fax from Staten Island, New York, to New Jersey. The fax cover sheet,

which I have reviewed, is dated October 11, 2001 and entitled "CHILDRENS STORE FRONT." On the cover sheet is a notation reading as follows: "Enclosing Invoice, Checks & equipment list for the schools proportionate amount as requested." GARY BLUM and OSCAR ALVAREZ, the defendants, are listed as "CC" on the fax. Transmitted with the cover sheet were copies of the following documents, among others:

- (a) a check dated September 28, 2001, from the personal account of JOHN DOTSON, the defendant, in the approximate amount of \$52,731, payable to C2I, with a notation that reads "Donation to Children's Store Front School for E-Rate";
- (b) a check dated September 28, 2001, from the personal account of DOTSON, in the approximate amount of \$2,268, payable to C2I, with a notation that reads "Donation to Children's Store Front School for E-Rate";
- c. a purported invoice dated September 4, 2001, that showed a charge to CSFS of approximately \$52,731, and a notation "ATTN: JOHN DOTSON," purporting to be regarding "the Schools proportionate amount due to Connect@ (sic) for E-Rate service - internal connections - see contract filed with SLD"; and
- d. another purported invoice that showed a charge to CSFS of approximately \$2,268, and a notation "ATTN: JOHN DOTSON," purporting to be regarding "the Scholols [sic] proportionate amount due to Connect@ (sic) for E-Rate service from July 1, 2000 thru June 30, 2001."

38. I have reviewed bank records of C2I that reflect that on or about September 28, 2001, the checks from JOHN DOTSON, the defendant, referred to in subparagraphs (a) and (b) of the previous paragraph were deposited into C2I's bank account. The total amount of those checks was approximately \$54,999. Other bank records and canceled checks show, however, that, on or about October 10, 2001, two certified checks totaling approximately \$54,999 were written by JOHN ANGELIDES, the defendant, on behalf of C2I, and made payable to JOHN DOTSON, the defendant. Those checks were deposited into the personal bank account of DOTSON on or about October 11, 2001. Thus, it appears that the purported contribution to CSFS in the amount of \$54,999 was a sham: DOTSON, not the Gilder Foundation, wrote the checks; and C2I returned the money to DOTSON shortly after DOTSON paid it.

(39.) On or about September 23, 2002, pursuant to my

instructions, CSFS Administrator 2 telephoned JOHN ANGELIDES, the defendant. In the conversation that followed, which was tape-recorded with the consent of CSFS Administrator 2, CSFS Administrator 2 discussed with ANGELIDES the following, in substance and in part:

a. Regarding the checks written by JOHN DOTSON, the defendant, to C2I purportedly on behalf of CSFS, CSFS Administrator 2 stated that it was her understanding that the funds to cover CSFS's 10% share of the E-Rate Program costs were supposed to come from the Gilder Foundation.

b. ANGELIDES stated that this was his "understanding too," and added that "when the time came where, you know, a requirement was made by the FCC that we need to show a canceled check, remember there was a period about a week or so, you and I could not, uh, produce that document. John [DOTSON] went ahead and, and generated this check and he gave it to me and says that is for the Children's Store Front funding." ANGELIDES went on to say, "I accepted it because we done the work and we had to get paid and the only way we could get paid is somebody showing proof that the, the payment was made for the ten percent."

40. I have interviewed Foundation Administrator 1, who advised me that the Gilder Foundation never paid any money to C2I to "cover" any portion of the cost of the E-Rate Program to CSFS.

ASSOCIATION for the HELP of RETARDED CHILDREN

41. According to USAC and SLD records:

a. A number of schools that participated in the E-Rate Program were run by the Association for the Help of Retarded Children ("AHRC"). AHRC for a time operated three schools, one in Brooklyn, one in the Bronx, and one in Manhattan, and the student bodies of all three were subsequently consolidated into one school located in Brooklyn, New York. AHRC participated in the E-Rate Program using C2I as its E-Rate vendor.

b. AHRC participated in the E-Rate Program with a 90% discount rate.

c. For Funding Year 3 of the E-Rate Program, C2I applied for a total of approximately \$768,087 in E-Rate funds for goods and services to be provided to AHRC. AHRC did not receive approval for all the funding sought, but received approval for a less extensive funding package, in the amount of approximately \$326,384. This amount purported to be 90% of the total price to be

charged to AHRC for E-Rate eligible goods and services. The full amount of \$326,384 was paid to C2I by USAC.

42. I have interviewed a former school administrator of AHRC ("AHRC Administrator 1"), who advised me of the following, in substance and in part:

a. In or about January 2000, AHRC Administrator 1 spoke with JOHN ANGELIDES, the defendant, who told AHRC Administrator 1 that there would be "no cost" to AHRC related to the E-Rate Program for as long as AHRC retained C2I as its service provider under the Program. Some time later, GARY BLUM, the defendant, confirmed that same representation, explaining that "outside sources" of funding found by C2I would cover AHRC's 10% Undiscounted Share.

b. In order to protect AHRC, AHRC Administrator 1 confirmed his/her understanding of ANGELIDES's "no cost" promise, and later, AHRC Administrator 1 requested written confirmation on C2I letterhead of ANGELIDES's and BLUM's promise that the school would not incur any costs for participating in the Program.

c. In reliance on those representations by C2I, AHRC applied through the E-Rate Program for a substantially more expensive and extensive internet service and equipment package than it would have done had the school been required to pay its 10% share.

43. AHRC gave me a copy of a letter dated January 14, 2000, addressed from AHRC Administrator 1 to JOHN ANGELIDES, the defendant, at C2I, stating, among other things, "This letter is to confirm our conversation on January 13, 2000. According to our conversation, AHRC is absolved from any costs associated with the E-Rate proposal, (specifically, the 10% school costs)."

44. AHRC also gave me a copy of a letter dated January 12, 2001, signed by GARY BLUM, the defendant, in his capacity as "Director of Marketing" for C2I, addressed to AHRC Administrator 1. The letter states, in relevant part: "I am pleased to inform you that Connect (sic) has been able to secure the 10% portion of the E-Rate funding through, grants and donations. AHRC will have no liabilities for this portion of the costs."

45. I interviewed another administrator of AHRC ("AHRC Administrator 2"), who has advised me of the following, in substance and in part:

a. In or about October 2001, JOHN ANGELIDES, the defendant, told AHRC Administrator 2 that the government was

requesting proof from AHRC that it had paid its Undiscounted Share. ANGELIDES acknowledged the prior arrangements with AHRC that AHRC was absolved from all costs, and ANGELIDES made two suggestions to AHRC Administrator 2, each of which ANGELIDES stated was an attempt by him to keep C2I's end of the bargain so that AHRC would incur no expense: (1) that AHRC should write a check to C2I in the amount of \$2,268, which ANGELIDES would then endorse, photocopy, and immediately give back to AHRC, or (2) that AHRC should write a check to C2I and C2I would write a check to AHRC in the same amount, a practice that ANGELIDES referred to as a "dummy check exchange."

b. AHRC Administrator 2 said he did not want to be a party to either of the arrangements proposed by JOHN ANGELIDES, the defendant. AHRC Administrator 2 proposed a different arrangement. He/she told ANGELIDES that AHRC would pay to C2I the amount that ANGELIDES needed to show the Government that AHRC had paid. However, AHRC Administrator 2 said that, to satisfy its moral obligation to live up to its earlier representations to AHRC, C2I should make a donation to a charitable organization that provides financial support to AHRC. ANGELIDES agreed to this arrangement.

46. I have reviewed a fax communication on C2I stationery from JOHN ANGELIDES, the defendant, in Staten Island, New York, to AHRC Administrator 2 in New York, New York. On the fax cover sheet, which is dated October 15, 2001, ANGELIDES wrote: "This is the request from the Schools + Libraries Div. They need to see a cancelled check for AHRC. Total amount is \$22680, 10% = \$2,268. Need to do this ASAP." Also enclosed was a fax communication on SLD stationery, dated August 27, 2001, addressed to ANGELIDES. The SLD's fax to ANGELIDES contains a notation stating: "What we still need - Canceled check/letter - AHRC BKLYN."

47. I have reviewed a fax communication, dated November 21, 2001, from JOHN ANGELIDES, the defendant, in Staten Island, New York, to an SLD analyst in New Jersey. The cover sheet is entitled "AHRC SCHOOL" and bears the following notation: "Enclosing Certification, Invoice & copy of check for school as requested." GARY BLUM and OSCAR ALVAREZ, the defendant, are identified as "CC" recipients of the fax. Transmitted with the cover sheet were copies of the following documents, among others: (a) a check dated November 14, 2001, from AHRC, in the approximate amount of \$2,268 payable to C2I; and (b) a purported invoice dated June 11, 2001, that showed a charge to School 4 of approximately \$2,268, purporting to be regarding "the SCHOOLS proportionate amount due to Connect2 for the E-Rate service from July 1, 2000 thru June 30, 2001."

48. I have reviewed a copy of a check in the amount of \$2,668, from C2I and signed by JOHN ANGELIDES, the defendant, dated November 13, 2001. made payable to "AHRC NYC Foundation."⁴ AHRC Administrator 2 told me that this check was sent to him/her with an explanatory note, a copy of which was shown to me. The note, initialed by ANGELIDES, states, in relevant part: "Small contribution from Connect2Internet."

ISLAMIC ELEMENTARY SCHOOL

49. According to USAC and SLD records:

a. Islamic Elementary School ("IES"), located in Queens, New York, participated in the E-Rate Program using C2I as its E-Rate vendor.

b. IES participated in the E-Rate Program with a 90% discount rate.

c. For Funding Year 3 of the E-Rate Program, C2I applied for a total of approximately \$1,283,357 in E-Rate funds for goods and services to be provided to IES. IES did not receive approval for all the funding sought, but received approval for a less extensive funding package, in the amount of approximately \$645,047. This amount purported to be 90% of the total price to be charged to IES for E-Rate eligible goods and services. The full amount of \$645,047 was paid to C2I by USAC.

50. I have interviewed an administrator of IES ("IES Administrator 1"), who advised me of the following, in substance and in part:

a. In or about December 1999 and early January 2000, GARY BLUM and OSCAR ALVAREZ, the defendants, told IES Administrator 1 that, if IES retained C2I as its vendor for the E-Rate Program, the school could obtain hundreds of thousands of dollars worth of internet-related services and equipment at no cost to the school. BLUM and ALVAREZ explained that C2I would find "outside funding" or "grants" to cover the school's obligation to pay 10% of the cost of E-Rate eligible goods and services.

b. IES Administrator 1 asked that C2I confirm in

AHRC Administrator 2 told me that the \$400 difference between the check AHRC wrote to C2I and the check C2I wrote to the AHRC NYC Foundation was to pay for two tickets to a charity fundraising banquet for which ANGELIDES purchased seats.

writing that IES would have no obligation to pay any money for E-Rate eligible goods and services. Afterwards, IES Administrator 1 received a letter from JOHN ANGELIDES, the defendant, that confirmed this representation.

c. In reliance on these representations, IES applied through the E-Rate Program for a substantially more expensive and extensive internet service and equipment package than it would have done had the school been required to pay its 10% share.

d. IES never received any invoice from C2I and never paid any money to C2I for the internet services and equipment that C2I supplied to IES.

51. IES provided me with a copy of an agreement dated January 18, 2000, between C2I and IES. The agreement is in the form of a letter from JOHN ANGELIDES, the defendant, to IES Administrator 1 of IES, and is signed by both individuals. The letter was also initialed by GARY BLUM, the defendant, on or about January 25, 2000. The agreement states, in relevant part: "It is our agreement that Islamic Elementary School will not be responsible for any cost in the proposal (sic) made to Islamic Elementary School by Connect2. It is also our agreement that Islamic Elementary School will receive an outside grant to subsidize the school's portion of the project. Therefore, it is our agreement that In (sic) accepting the Connect2 proposal, there is absolutely no cost to the school."

52. IES also provided me with a letter, dated September 18, 2002, from the FCC to IES Administrator 1. The letter states, in relevant part, that the Office of Inspector General of the FCC would be conducting an on-site review of IES for the purpose of assessing whether IES was complying with the SLD's rules and regulations, whether the equipment supplied and the services rendered to IES were consistent with what was billed under the E-Rate Program, and whether payments were made by IES to its service provider (i.e., C2I).

53. IES Administrator 1 advised me of the following, in substance and in part:

a. When he/she received the letter from the FCC, IES Administrator 1 asked JOHN ANGELIDES, the defendant, to provide him/her with copies of certain paperwork.

b. In or about early October 2002, ANGELIDES and OSCAR ALVAREZ, the defendant, visited the school. In addition to the paperwork that IES Administrator 1 had requested, ANGELIDES gave

IES Administrator 1 backdated invoices purporting to require payment for IES's Undiscounted Share. ANGELIDES instructed IES Administrator 1 to show these invoices to the FCC auditors. ANGELIDES also suggested that IES Administrator 1 falsely represent to the auditors that IES had agreed to pay its 10% share, but that, because IES did not presently have the money to cover those costs, IES had not yet made any payment. ANGELIDES proposed that IES Administrator 1 tell the auditors that C2I recognized IES's difficult financial situation, and that C2I had agreed to give IES additional time to make those payments.

54. I have reviewed copies of approximately nine invoices that IES Administrator 1 told me were given to him/her by JOHN ANGELIDES, the defendant, in early October 2002. Each is dated June 11, 2001 or earlier, and each purports to relate to internet services, internal connections or internet access provided by C2I. Eight of the invoices relate to Funding Year 3, and purport to seek from IES a total of more than \$700,000.

(55) On or about October 8, 2002, JOHN ANGELIDES and OSCAR ALVAREZ, the defendants, met with IES Administrator 1 in IES Administrator 1's office. Also present at this meeting was another of IES's school administrators ("IES Administrator 2"). That meeting was consensually recorded on videotape and audiotape by law enforcement, and I have reviewed the recordings. During the meeting, IES Administrator 1 and IES Administrator 2 discussed with ANGELIDES and ALVAREZ the history of the relationship between IES and C2I. During this meeting:

a. ANGELIDES stated that the SLD needed to be shown proof by schools participating in the E-Rate Program, in the form of a canceled check, that the schools had paid their 10% share. Acknowledging the fact that IES had not previously written any such checks, ANGELIDES reiterated that IES Administrator 1 should tell the FCC auditors that IES had agreed to pay its Undiscounted Share, but that it did not currently have the money, and that it nevertheless intended to pay. ANGELIDES further suggested to IES Administrator 1 and IES Administrator 2 that they should tell the auditors that they had received invoices from C2I for IES's share, but that, because of the "events of September 11," (i.e., the terrorists attacks on September 11, 2001), the school did not have the money right now. ANGELIDES stated that they should "use 9/11 as a wedge" because the auditors would "understand, because" IES is "Islamic."

b. ANGELIDES repeated assured IES Administrator 1 and IES Administrator 2 that C2I was "not going to make you pay, we're not going to make that demand." ANGELIDES acknowledged that the

invoices that were submitted to IES in October 2002 were backdated to 2001, and solely for presentation to the FCC auditors. In addition, ANGELIDES characterized a written document entitled "Proposed Payment Schedule" -- a document which Angelides also gave to IES and asked IES to show to the auditors -- as "just a facade." ALVAREZ repeatedly expressed agreement with these representations and characterizations.

c. IES Administrator 2 stated that he/she was contemplating showing to the FCC auditors the January 18, 2000, letter (*i.e.*, the letter stating there would be "absolutely no cost to the school"), and ANGELIDES urged him/her not to do so. Administrator 2 asked if it was alright if IES Administrator 2 told the SLD that C2I made a "contribution" to IES to cover the 10%, and both ANGELIDES and ALVAREZ responded that he/she should not do that. ANGELIDES said "no, that's going to kill everyone." ALVAREZ agreed, emphasizing that such an arrangement was "illegal." ANGELIDES told the IES administrators that C2I had provided letters similar to the January 18, 2000, letter (promising those schools that they would not have to pay their Undiscounted Shares) to four schools, including Al Noor and CSFS.

d. Both ANGELIDES and ALVAREZ acknowledged various ways in which C2I had overcharged the Government for services provided to IES, including installing more wiring than necessary and failing to inform the SLD when inexpensive equipment was substituted for expensive equipment (such as the substitution of two Dell computer servers with a value of approximately \$10,000 each for Sun servers with a value of approximately \$30,000 each).

(56) On or about October 9, 2002, acting on my instructions, IES Administrator 2 telephoned JOHN ANGELIDES, the defendant. During the the tape-recorded conversation that followed:

(a) ANGELIDES "highly recommended" that IES Administrator 2 not show the January 18, 2000, letter to the government, and added that, if they did show it, it was "going to get us all into trouble - we're all going to be in a pickle."

(b) ANGELIDES acknowledged that he signed the January 18, 2000 letter, but claimed that he did so "reluctantly" and only after GARY BLUM, the defendant, had made that offer to IES. ANGELIDES stated that BLUM had made this type of arrangement with "most" of the schools that C2I worked with, noting that C2I had promised not to charge any money to 16 out of 24 schools for which C2I received E-Rate funding in Funding Year Three.

57. On or about October 10, 2002, acting on my instructions, IES Administrator 1 and IES Administrator 2 telephoned JOHN ANGELIDES, the defendant. In the conversation that followed, ANGELIDES repeated many of statements made in earlier conversations and strongly urged the IES administrators to lie to the FCC auditors and conceal information from them. ANGELIDES explained that it was one thing for IES Administrator 2 to tell the auditors that IES did not have the money to pay C2I, but a different thing to say IES "colluded" with C2I beforehand to violate E-Rate's rules. ANGELIDES stated that "collusion" "violates their [i.e., SLD's] basic rules" "as spelled out clearly" in the SLD's website. ANGELIDES also said that, if the IES administrators told the SLD there was an initial arrangement for the school not to pay, the school "could lose the equipment," and the SLD would punish the school and the vendor.

58. On or about October 17, 2002, acting on my instructions, IES Administrator 1 telephoned JOHN ANGELIDES, the defendant. In the tape-recorded conversation that followed, ANGELIDES stated that he was "concerned" about the January 18, 2000 letter. ANGELIDES stated that he had found a copy of the letter in his files, but he asked IES Administrator 1 to send a copy of the letter so ANGELIDES could see if both copies were the same.

SAINT JOHN'S LUTHERAN SCHOOL

59. According to USAC and SLD records:

a. Saint John's Lutheran School ("SJLS"), located in Glendale, New York, participated in the E-Rate Program using C2I as its E-Rate vendor.

b. SJLS participated in the E-Rate Program with a 40% discount rate.

c. For Funding Year 3 of the E-Rate Program, C2I applied for a total of approximately \$207,109 in E-Rate funds for goods and services to be provided to SJLS. SJLS did not receive approval for all the funding sought, but received approval for a less extensive funding package, in the amount of approximately \$13,608. This amount purported to be 60% of the total price to be charged to SJLS for E-Rate eligible goods and services. The full amount of \$13,608 was paid to C2I by USAC.

60. I have interviewed an administrator of SJLS ("SJLS Administrator 1"), who advised me of the following, in substance and in part:

a. C2I representatives told SJLS Administrator 1 that, if SJLS retained C2I to be its vendor for the E-Rate Program, the School could obtain internet-related services and equipment at no cost to the school. Specifically, the C2I representatives promised that the school would not be responsible for paying the Undiscounted Share (i.e., in the case of SJLS, its 40% portion), and that C2I would find outside "grants" to cover the School's share.

b. SJLS Administrator 1 repeatedly advised JOHN ANGELIDES, the defendant, that SJLS could not afford to pay the Undiscounted Share of C2I's E-Rate proposals. In response, ANGELIDES sent a letter that confirmed that SJLS would not have to pay anything to participate in the program.

c. C2I never sent any invoices to SJLS for its Undiscounted Portion, and SJLS never paid any money to C2I for equipment and services received in Funding Year 3 of the E-Rate Program.

d. Sometime later, JOHN ANGELIDES, the defendant, asked SJLS Administrator 1 to write a check to C2I on behalf of SJLS for \$9,072. SJLS Administrator 1 told ANGELIDES that SJLS could not afford to make such a payment to C2I, and that the school did not have enough money in its checking account to cover the amount of the check ANGELIDES asked for. ANGELIDES told SJLS Administrator 1 that he had no intention of cashing or depositing the check, and instructed SJLS Administrator 1 to hand the check to a C2I employee designated by ANGELIDES, who would stamp it. ANGELIDES told SJLS Administrator 1 to then make a photocopy of the check, which ANGELIDES stated he simply wanted to keep in his files. On ANGELIDES's instructions, SJLS Administrator 1 wrote the check, which was stamped by a C2I employee. Then, SJLS Administrator 1 gave a photocopy of the check to the C2I employee. According to SJLS Administrator 1, the check itself never left the school, and was never cashed or deposited.

61. SJLS gave me a copy of an agreement, dated January 18, 2000, between C2I and SJLS. The agreement is in the form of a letter from JOHN ANGELIDES, the defendant, to SJLS Administrator 1, and is signed by both individuals. The agreement states, in relevant part: "It is our understanding that St. John Lutheran School will not be responsible for any cost in the proposal made to St. John Lutheran School by Connect2. It is also our agreement that St. John Lutheran School will receive an outside grant to subsidize the school's portion of the project. Therefore, it is our agreement that in accepting the Connect2 proposal, there is absolutely no cost to the school."

62. SJLS also gave me a copy of a check in the amount of \$9,072, from SJLS to C21, dated October 19, 2001. The check is signed by SJLS Administrator 1. The back of the check contains the stamped notation "For Deposit Only" and the number of an account.

63. I have reviewed a fax dated October 22, 2001, from JOHN ANGELIDES, the defendant, in Staten Island, New York, to an SLD analyst in New Jersey. The fax cover sheet is entitled "ST. JOHN LUTHERAN SCHOOL," and bears the notation: "Enclosing Invoice, Check and certification for schools proportionate amount as requested." GARY BLUM and OSCAR ALVAREZ, the defendants, are identified as having received "CC" copies of the fax. Transmitted with the fax cover sheet are copies of the following documents, among others: (a) the check in the amount of \$9,072, dated October 19, 2001, from SJLS to C2I; and (b) a purported invoice, dated June 11, 2001, from C2I to SJLS for approximately \$9,072, purporting to be regarding "the Schools proportionate amount due to Connect2 for E-Rate service from July 1, 2000 thru June 30, 2001."

CONNECT 2 DID NOT SEEK OR OBTAIN OUTSIDE FUNDING

64. I have spoken to a former employee of C2I ("Insider 1") who told me, in substance and in part, the following:

a. JOHN ANGELIDES, the defendant, regularly instructed C2I's sales force to explain in their sales pitch to schools that C2I would find "outside funding" to cover the Schools' Undiscounted Shares. ANGELIDES claimed to Insider 1 that C2I had a "kitty" of such grant monies donated by "corporations" intended to cover schools' Undiscounted Share.

b. C2I never employed anyone who was designated to fill out the voluminous paperwork that would have been required to obtain grants of that sort. In his/her entire time working at C2I, Insider 1 never saw any grant application materials (other than a few blank forms and some informational material Insider 1 gathered on his/her own), and he/she never heard of any specific grants being sought or being obtained for schools. Insider 1 also informed me that he/she was aware of no system in place at C2I for earmarking or otherwise setting aside funds in the alleged "kitty" to cover particular schools' Undiscounted Share.

65. None of the school administrators with whom I spoke was aware of any school receiving any grant to cover the school's Undiscounted Share of its E-Rate Program participation (except in the case of Children's Store Front School, where, as described above, the administrators from that school were led to believe, falsely, that the Gilder Foundation would supply a grant). Nor did

C2I ever request that the school submit any grant application paperwork for such grants, nor that those administrators meet with any potential donors.

CONNECT 2 INTERNET'S OBSTRUCTION OF THE GRAND JURY

66. On or about December 4, 2001, I served C2I with a Grand Jury Subpoena Duces Tecum, issued in the Southern District of New York, requiring the production of "any and all records pertaining to Connect 2 Internet's affiliation with the "E-Rate" Program, including but not limited to contractual agreements with all schools, accounts payable/receivable records and any and all information regarding donations/contributions made to the Islamic Society of Bay Ridge." The return date for that subpoena was December 6, 2001. Nevertheless, by agreement between C2I's counsel and government counsel, the return date for full compliance with the subpoena was extended several times.

67. On June 6, 2002, C2I, via counsel, produced a final set of documents. The cover letter, which is addressed to me, states: "Based on upon (sic) the assurances of our client, you are now in possession of the complete universe of documents responsive to the subpoena for Connect2's participation in Years 3, 4 and 5 of the E-Rate Program." The letter was delivered "by hand," and indicated that it had been "cc'd" to JOHN ANGELIDES, the defendant, via facsimile.

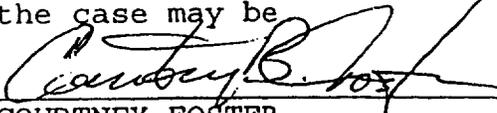
68. I have reviewed the materials produced by C2I in response to the Grand Jury, and found that numerous incriminating documents were not included in that production, despite the representations made by C2I's counsel that all the materials were produced. Moreover, based on the particular documents not produced, I believe these documents were withheld strategically, in an intentional and willful attempt to obstruct the Grand Jury investigation and to delay and defeat the due administration of justice. Specifically, although the evidence described above establishes that C2I agreed with virtually every school to which it provided E-Rate eligible services that the school would not have to

pay its Undiscounted Share, the documents and materials evidencing those improper agreements were not produced. Among the documents that were not produced are the following:

| Date | Description | Related School | Cplt. ¶ |
|-----------|---|---|---------|
| 1/11/2000 | Letter from St. Rocco Victoria School to C2I, countersigned by JOHN ANGELIDES stating, <u>inter alia</u> , "in accepting the [C2I] proposal there is absolutely no cost to the school." | Saint Rocco Victoria School | 29 |
| 1/14/2000 | letter from AHRC to JOHN ANGELIDES, stating, <u>inter alia</u> , "AHRC is absolved from any costs associated with the E-Rate proposal, (specifically, the 10% school costs)." | Association for the Help of Retarded Children | 43 |
| 1/12/2001 | Letter from GARY BLUM to Association for the Help of Retarded Children, stating, <u>inter alia</u> , "AHRC will have no liabilities for this portion of the costs." | Association for the Help of Retarded Children | 44 |

| | | | |
|-----------|---|---------------------------|----|
| 1/18/2000 | Letter signed by JOHN ANGELIDES and initialed by GARY BLUM from C2I to Islamic Elementary School, stating, <u>inter alia</u> , "It is our agreement that Islamic Elementary School will not be responsible for any cost in the proposal made to Islamic Elementary School by Connect2. . . . In accepting the Connect2 proposal, there is absolutely no cost to the school." | Islamic Elementary School | 51 |
| 1/18/2000 | Letter signed by JOHN ANGELIDES from C2I to St. John Lutheran School, stating, <u>inter alia</u> , "It is our understanding that St. John Lutheran School will not be responsible for any cost in the proposal made to St. John Lutheran School by Connect2. . . . It is our understanding that in accepting the Connect2 proposal, there is absolutely no cost to the school." | St. John Lutheran School | 61 |

WHEREFORE, deponent prays that a warrant be issued for the arrest of the above-named defendants, and that they be arrested and imprisoned, or bailed, as the case may be


 COURTNEY FOSTER
 FEDERAL BUREAU OF INVESTIGATION

Sworn to before me this
 17th day of December, 2002


 UNITED STATES MAGISTRATE JUDGE
 SOUTHERN DISTRICT OF NEW YORK

KEVIN NATHANIEL FOX
 United States Magistrate Judge
 Southern District of New York

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

----- x

UNITED STATES OF AMERICA :

- v. - :

JOHN ANGELIDES, :

Defendant. :

----- x

INFORMATION

03 Cr.

COUNT ONE

(Fraud, False Claims and False Statements Conspiracy)

The United States Attorney charges:

The E-Rate Program

1. In or about 1998, the Federal government implemented a program to provide subsidies to schools and libraries in financial need for use in the purchase and installation of internet access and telecommunications services as well as internal computer and communication networks (the "E-Rate Program"). The program is administered under contract with the Government by a private, not-for-profit company called the Universal Service Administration Company ("USAC"), and a subdivision of USAC called the "Schools and Libraries Division" ("SLD"). The Federal Communications Commission ("FCC") oversees and regulates USAC and SLD.

2. One of the principal objectives of the E-Rate Program is to encourage economically disadvantaged schools to create and upgrade their internet and communications

infrastructure, and to provide their students with access to the internet as a learning tool. To further this objective, the Federal government has, since the inception of the program, offered to pay a large portion of the cost of each participant school's infrastructure enhancements, where such schools meet the E-Rate Program's eligibility requirements.

3. One of the E-Rate Program's core eligibility requirements is that each applicant school pay some percentage of the cost of the infrastructure enhancement. The percentage that the applicable school must pay ranges from 10% to 80%, depending on particular characteristics related to the neediness of each applicant institution (hereinafter, the school's "Undiscounted Share"). The Government pays the balance of that cost, which ranges from as low as 20% to as high as 90%. Among the reasons why the applicant schools are required to pay a portion of the costs are: (i) to ensure that schools have a financial incentive to negotiate for the most favorable prices, so that the government's spending under the program is not wasteful; and (ii) to ensure that schools only purchase infrastructure and equipment that they truly need.

Connect 2 Internet and the Defendants

4. At all times relevant to this Information, Connect 2 Internet Networks, Inc. ("Connect 2") was a vendor of internet and communications infrastructure and related services.

5. At all times relevant to this Information, JOHN ANGELIDES, the defendant, was the owner and principal officer of Connect 2.

6. A number of schools in the New York City and New Jersey area have applied for and received funding from the E-Rate Program to establish, enhance and/or upgrade those schools' internet infrastructure, using Connect 2 as their vendor for internet related services and equipment. Specifically, in the period from approximately July 1998 to the present, Connect 2 was the vendor of goods and services for more than 200 schools participating in the E-Rate Program. Most of these schools purported to participate at a 90% discount rate (i.e., the discount rate associated with the most financially disadvantaged schools), and consequently, under the rules of the E-Rate Program, those schools were obligated to pay 10% of the cost of goods and services, and Connect 2 sought payment from the Government for the purportedly remaining 90%.

Overview of the Fraudulent Scheme

7. JOHN ANGELIDES, the defendant, and co-conspirators not named as defendants herein, devised and carried out a scheme to obtain E-Rate funds for goods and services that Connect 2 provided to various schools on the false pretense that the schools would pay or had paid their Undiscounted Share of the costs of those goods and services. In fact, ANGELIDES and Connect 2 charged the schools